



FETAKGOMO LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended June 30, 2014

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Service Delivery
Members of the Council	Councillors and Traditional Leaders Sefala RE (Mayor) Mamphekgo KK(Speaker) Makola MM (Chief Whip) Lentsoane SA (EXCO Member of Development Planning) Maisela PR(EXCO Member of Technical Services) Phaladi RC (EXCO Member of Budget & Treasury) Seroka KA (EXCO Member of Corporate & Community Services) Diphofa KD (Chairperson of Technical Services Portfolio Committee) Kupa TM(Chairperson of Budget & Treasury Services Portfolio Committee) Phala MD(Chairperson of Development Planning Portfolio Committee) Mashabela MN(Chairperson of Community Services Portfolio Committee) Mathipa MH(Chairperson of Remuneration Committee) Marote TE(Chairperson of Chairperson) Mabotha MC(Chairperson of Rules and Ethics Committee) Moifo HK Mawela VT Manala ER Mosoana MD Maesela MG Maboa S Kgoshi Phahlamohlaka K.P Kgoshi Nchabeleng M.K Kgoshigadi Seroka T.M Kgoshigadi Maisela RM Kgoshigadi Nchabeleng M
Grading of local authority	2
Municipal Manager	Matumane N.D
Chief Financial Officer	Maredi MF
Registered office	Stand No. 1 Mashung Ga-Nkoana Apel
Business address	Stand No. 1 Mashung Ga-Nkoana Apel
Postal address	PO Box 818 Ga-Nkoana Apel 0739
Attorneys	Rachoene and Associates Sydwel Rachoene
Preparer	The annual financial statements were independently compiled by: SizweNtsalubaGobodo Incorporated Chartered Accountants (SA)

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Annual Financial Statements for the year ended June 30, 2014

General Information

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015 299 4435

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NtuliPS@treasury.limpopo.gov.za
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Annual Financial Statements for the year ended June 30, 2014

Approval of Annual Financial Statements

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 45 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors or management, loans made to Councilors or management, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs' determination in accordance with this Act and remuneration framework for section 56/57 as approved by the Fetakgomo Municipal Council."

Friday, August 29, 2014

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Statement of Financial Position as at June 30, 2014

	Note(s)	2014 R	2013 R
Assets			
Current Assets			
Inventory	10	193,598	109,618
Receivables from exchange transactions	11	231,851	206,103
Receivables from non-exchange transactions	12	1,650,460	997,194
VAT receivable	13	2,403,505	2,333,110
Receivables	14	6,577,130	640,406
Cash and cash equivalents	15	15,488,957	16,138,616
		26,545,501	20,425,047
Non-Current Assets			
Investment property	6	3,378,504	6,579,091
Property, plant and equipment	7	106,841,807	86,164,592
Heritage assets	8	105,000	105,000
		110,325,311	92,848,683
Total Assets		136,870,812	113,273,730
Liabilities			
Current Liabilities			
Finance lease obligation	16	174,560	44,388
Payables from exchange transactions	19	8,793,757	5,479,107
Unspent conditional grants and receipts	17	9,289,173	7,386,565
Provisions	18	346,579	51,379
Bank overdraft	15	-	156,037
		18,604,069	13,117,476
Non-Current Liabilities			
Finance lease obligation	16	293,797	10,635
Long term service obligation	9	497,020	412,895
		790,817	423,530
Total Liabilities		19,394,886	13,541,006
Net Assets		117,475,926	99,732,724
Net Assets			
Accumulated surplus		117,475,912	99,732,724

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Annual Financial Statements for the year ended June 30, 2014

Statement of Financial Performance

	Note(s)	2014 R	2013 R
Revenue			
Service charges	22	3,900,496	2,340,535
Rental of facilities and equipment	21	146,609	213,456
Public contributions and donations	24	187,317	-
Property rates - penalties imposed		317,166	113,423
Property rates	21	7,685,709	2,249,209
Other income	25	352,177	526,780
Licences and permits		1,765,589	1,721,886
Interest received - investment		1,191,329	729,251
Income from agency services		321,488	254,318
Government grants & subsidies	23	74,504,098	66,075,436
Fines		1,129,443	688,650
Total revenue		91,501,421	74,912,944
Expenditure			
Employee related cost	27	(31,121,587)	(27,310,863)
Remuneration of councillors	28	(8,106,371)	(7,011,301)
Depreciation and amortisation	31	(2,519,064)	(4,079,585)
Impairment loss	32	-	(40,527)
Finance costs	33	(19,817)	(12,115)
Debt impairment	29	(5,355,109)	(7,227,730)
Repairs and maintenance		(673,057)	(869,153)
Grants and subsidies paid	35	(2,641,403)	(1,759,432)
General expenses	26	(20,458,267)	(17,513,930)
Total expenditure		(70,894,675)	(65,824,636)
Operating surplus		20,606,746	9,088,308
Surplus for the year		20,606,746	9,088,308

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Annual Financial Statements for the year ended June 30, 2014

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at July 01, 2012	90,644,417	90,644,417
Surplus for the year	9,088,307	9,088,307
Total changes	9,088,307	9,088,307
Balance at July 01, 2013	96,869,166	96,869,166
Surplus for the year	20,606,746	20,606,746
Total changes	20,606,746	20,606,746
Balance at June 30, 2014	117,475,912	117,475,912

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Cash Flow Statement

	Note(s)	2014 R	2013 R
Cash flows from operating activities			
Receipts			
Rates and taxes		952,674	239,052
Sale of goods and services		1,866,801	1,516,739
Grants		76,406,706	68,714,059
Interest income		1,191,329	729,251
Other receipts		352,177	267,294
Fines		476,177	684,035
		81,245,864	72,150,430
Payments			
Employee and councillors related cost		(39,143,833)	(33,933,613)
Suppliers		(20,129,929)	(19,943,159)
Finance costs		(19,817)	(12,115)
		(59,293,579)	(53,888,887)
Net cash flows from operating activities	36	21,952,285	18,261,543
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(24,385,174)	(16,335,950)
Proceeds from sale of property, plant and equipment	7	2,051,358	-
Net cash flows from investing activities		(22,333,816)	(16,335,950)
Cash flows from financing activities			
Finance lease payments		(112,091)	(74,715)
Net increase/(decrease) in cash and cash equivalents		(493,622)	1,850,878
Cash and cash equivalents at the beginning of the year		15,982,579	14,131,701
Cash and cash equivalents at the end of the year	15	15,488,957	15,982,579

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	3,360,000	(3,360,000)	-	3,900,496	3,900,496	
Rental of facilities and equipment	263,490	(263,490)	-	146,609	146,609	
Interest received	69,960	(69,960)	-	-	-	
Income from agency services	450,000	(450,000)	-	321,488	321,488	
Licences and permits	1,800,000	(1,800,000)	-	1,765,589	1,765,589	
Other income - (rollup)	286,000	(286,000)	-	352,177	352,177	
Interest received - investment	890,000	(890,000)	-	1,191,329	1,191,329	
Total revenue from exchange transactions	7,119,450	(7,119,450)	-	7,677,688	7,677,688	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	8,000,000	(8,000,000)	-	7,685,709	7,685,709	
Property rates - penalties imposed	100,000	(100,000)	-	317,166	317,166	
Government grants & subsidies	76,270,233	(76,270,233)	-	74,504,098	74,504,098	
Transfer revenue						
Public contributions and donations	212,708	(212,708)	-	187,317	187,317	
Fines	500,000	(500,000)	-	1,129,443	1,129,443	
Total revenue from non-exchange transactions	85,082,941	(85,082,941)	-	83,823,733	83,823,733	
Total revenue	92,202,391	(92,202,391)	-	91,501,421	91,501,421	
Expenditure						
Personnel	(33,493,052)	33,493,052	-	(31,121,587)	(31,121,587)	
Remuneration of councillors	(8,109,806)	8,109,806	-	(8,106,371)	(8,106,371)	
Depreciation and amortisation	(3,269,850)	3,269,850	-	(2,519,064)	(2,519,064)	
Finance costs	(10,500)	10,500	-	(19,817)	(19,817)	
Debt impairment	(9,256,000)	9,256,000	-	(5,355,109)	(5,355,109)	
Repairs and maintenance	(1,166,850)	1,166,850	-	(673,057)	(673,057)	
Grants and subsidies paid	(2,640,000)	2,640,000	-	(2,641,403)	(2,641,403)	
General Expenses	(21,484,213)	79,430,271	57,946,058	(20,458,267)	(78,404,325)	
Total expenditure	(79,430,271)	137,376,329	57,946,058	(70,894,675)	(128,840,733)	
Operating surplus	12,772,120	45,173,938	57,946,058	20,606,746	(37,339,312)	
Gain on disposal of assets and liabilities	2,000	(2,000)	-	-	-	
Surplus before taxation	12,774,120	45,171,938	57,946,058	20,606,746	(37,339,312)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	12,774,120	45,171,938	57,946,058	20,606,746	(37,339,312)	

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Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2014											
Financial Performance											
Property rates	4,021,200	4,078,800	8,100,000	-		8,100,000	8,002,875		(97,125)	99 %	199 %
Service charges	5,157,140	(1,634,140)	3,523,000	-		3,523,000	3,900,496		377,496	111 %	76 %
Investment revenue	1,450,000	(560,000)	890,000	-		890,000	1,191,329		301,329	134 %	82 %
Transfers recognised - operational	57,379,400	212,708	57,592,108	-		57,592,108	57,298,254		(293,854)	99 %	100 %
Other own revenue	4,168,450	1,540,000	5,708,450	-		5,708,450	3,715,306		(1,993,144)	65 %	89 %
Total revenue (excluding capital transfers and contributions)	72,176,190	3,637,368	75,813,558	-		75,813,558	74,108,260		(1,705,298)	98 %	103 %
Employee costs	(34,351,952)	1,067,857	(33,284,095)	-	266,577	(33,017,518)	(31,121,587)	-	1,895,931	94 %	91 %
Remuneration of councillors	(7,356,706)	(785,000)	(8,141,706)	-	(43,100)	(8,184,806)	(8,106,371)	-	78,435	99 %	110 %
Debt impairment	(6,288,000)	(2,968,000)	(9,256,000)			(9,256,000)	(5,355,109)	-	3,900,891	58 %	85 %
Depreciation and asset impairment	(3,269,850)	3,269,850	-			-	(2,519,064)	-	(2,519,064)	DIV/0 %	77 %
Finance charges	(89,250)	89,250	-	-	-	-	(19,817)	-	(19,817)	DIV/0 %	22 %
Transfers and grants	-	-	-	-	-	-	(2,641,403)	-	(2,641,403)	DIV/0 %	DIV/0 %
Other expenditure	(25,743,420)	(25,950)	(25,769,370)	-	156,523	(25,612,847)	(21,131,324)	-	4,481,523	83 %	82 %
Total expenditure	(77,099,178)	648,007	(76,451,171)	-	380,000	(76,071,171)	(70,894,675)	-	5,176,496	93 %	92 %
Surplus/(Deficit)	(4,922,988)	4,285,375	(637,613)	-		(257,613)	3,213,585		3,471,198	(1,247)%	(65)%

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Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	19,041,600	(19,041,600)	-	-		-	17,205,844		17,205,844	DIV/0 %	90 %
Contributions recognised - capital and contributed assets	212,708	(212,708)	-	-		-	187,317		187,317	DIV/0 %	88 %
Surplus (Deficit) after capital transfers and contributions	14,331,320	(14,968,933)	(637,613)	-		(257,613)	20,606,746		20,864,359	(7,999)%	144 %
Surplus/(Deficit) for the year	14,331,320	(14,968,933)	(637,613)	-		(257,613)	20,606,746		20,864,359	(7,999)%	144 %

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Significant judgements and sources of estimation uncertainty

These annual financial statements have been prepared on a going concern basis.

In preparing the annual financial statements to conform with the standards of GRAP, management is required to make estimates, judgements and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future may differ from these estimates.

All significant estimates, judgements and underlying assumptions are reviewed on a constant basis. All necessary revisions of significant estimates are recognised in the period during such revisions as well as in any future affected periods.

Allowance for slow moving, damaged and obsolete stock

In determining the allowance for stock to write stock down to the lower of cost or net realisable value, management have made estimates of the selling price and direct cost to sell on certain inventory.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Long service awards

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the long service awards obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related long service liability.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for impairment

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.4 Property, plant and equipment (continued)

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset is met. If the expenditure merely restores the original best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life in years
Land	Indefinite
Buildings	
• Caravan	5-10
• Shelter	10-15
• Civic theatres	25-30
Electricity	
• Transformers	25-50
• Electrical panels	3-5
• Lines-underground	25-45
Roads(Roads,Pavements,Bridges & Storm Water)	
• Vehicle Bridge -Concrete	
• Municipal roads-Asphalt surface	10-20
• Asphalt layer	30-50
Furniture and Office Equipment	
• Advertising boards	3-5
• Air conditioners(individual & portable)	3-5
• Cutlery and crockery	5-10
Transport Assets	
• Motor vehicles	4-7
• Trailers and accessories	5-10
• Trucks	5-7
Computer Equipment	
• Computer hardware including operating systems	3-5
• Networks	5-10
Other Machinery and Equipment	
• Audio equipment	5-10
• Building air conditioning systems	5-10
• Domestic equipment(non kitchen appliances)	3-5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.4 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

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1.6 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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Accounting Policies

1.6 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - Lessee

Leases that transfer substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases. The difference between the amounts recognised as revenue and the contracted receipts are recognised as an operating lease asset or liability

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Accounting Policies

1.7 Leases (continued)

Assets leased in terms of finance lease agreements are capitalized at amounts equal at the inception of the lease to the fair value of the leased property, or lower, at the present value of the minimum lease payments. Capitalised leased assets are depreciated in accordance with the accounting policy applicable to property, plant and equipment, refer to property, plant and equipment policy. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. Lease finance charges are amortised to the statement of financial performance over the duration of the leases so as to achieve a constant rate of interest on the remaining balance of the liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventory

Inventory are initially measured at cost except where inventory are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventory are measured at the lower of cost and net realisable value.

Inventory are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventory comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to their present location and condition.

The cost of inventory of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventory is assigned using the weighted average cost formula. The same cost formula is used for all inventory having a similar nature and use to the municipality.

When inventory are sold, the carrying amounts of those inventory are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventory to net realisable value or current replacement cost and all losses of inventory are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventory, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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1.9 Impairment of cash-generating assets (continued)

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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1.10 Impairment of non-cash-generating assets (continued)

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.11 Share capital / contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

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Accounting Policies

1.12 Employee benefits (continued)

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the annual financial statement in note number 38 .

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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1.15 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.16 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.20 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act 56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2012 to 6/30/2013.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.22 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.23 Commitments

Items are classified as commitment where the municipality commits itself to future transactions that will normally results in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and contract has been awarded at the reporting date; and
- where disclosure is required by specific standard of GRAP.

1.24 Event after balance sheet date

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the municipal is not appropriate. [

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

Accounting

Adjust financial statements for adjusting events - events after the balance sheet date that provide further evidence of conditions that existed at the end of the reporting period, including events that indicate that the going concern assumption in relation to the whole or part of the municipal is not appropriate.

Additional text

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
2. Commitments		
Capital and current commitment		
Capital		
• Community assets	4,875,169	2,504,822
• Infrastructure	3,216,629	3,712,064
	8,091,798	6,216,886
Current		
• Operational	2,510,128	4,783,093
<p>The following are the projects forms part of the commitment ;</p> <p>-Construction of Mphanaman Community Hall;</p> <p>-Construction of High Mast Lights;</p> <p>-Designs of Street Lights and ;</p> <p>-Security and rental of two radio equipments.</p> <p>The above commitment will be finance from conditional grants and municipal owned revenue.</p>		
Operating leases - as lessor (income)		
Minimum lease payments due		
- within one year	-	52,959
<p>Certain of the municipality's offices t is held to generate rental income. Lease agreements are cancellable and have terms from 1 to 3 years. There are no contingent rents receivable.</p>		
3. Irregular expenditure		
Opening balance	6,276,825	2,388,840
Irregular expenditure - current year	-	3,887,985
	6,276,825	6,276,825
Analysis of expenditure awaiting condonation per age classification		
Current year	-	3,887,985
Prior years	-	2,388,840
	-	6,276,825
Details of irregular expenditure incurred		
4. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to SALGA		
Council membership fee payable	450,000	400,000
Amount paid - current year	(450,000)	(400,000)
	-	-
Medical Aid		
Current payroll deduction	1,462,092	1,433,064
Amount paid - current year	(1,462,092)	(1,433,064)
	-	-
Audit fees		

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
4. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Current year audit fee	1,424,880	1,312,270
Amount paid - current year	(1,424,880)	(1,312,270)
	-	-

PAYE , SDL and UIF

Current payroll deduction	5,426,969	5,122,154
Amount paid - current year	(5,426,969)	(5,122,154)
	-	-

Pension fund

Current payroll deduction	5,009,622	4,107,388
Amount paid - current year	(5,009,622)	(4,107,388)
	-	-

VAT

VAT receivable	2,403,505	2,333,110
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All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2014:

June 30, 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Marote ET	211	319	530
Mabotha R	213	481	694
Phala MD	208	189	397
Phala TN	114	-	114
Moifo KH	213	541	754
Moswane NP	213	804	1,017
Mosoane M	213	666	879
	1,385	3,000	4,385

June 30, 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Phala TN	91	-	91
Moifo HK	-	151	151
Mosoana DM	-	736	736
Moswane WM	-	413	413
Mabotha R	-	121	121
	91	1,421	1,512

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014	2013
	R	R

4. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by Municipal Manager and noted by Council on quarterly basis.

Description		
Deviations on goods and services less than R30 000	32,299	211,149
Deviations on goods and services between R30 000 and R200 000	122,000	66,454
	154,299	277,603

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

5. New standards and interpretations

5.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 25: Employee benefitsGRAP 1 (as revised 2012): Presentation of Financial StatementsGRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and ErrorsGRAP 9 (as revised 2012): Revenue from Exchange TransactionsGRAP 12 (as revised 2012): InventoriesGRAP 13 (as revised 2012): LeasesGRAP 16 (as revised 2012): Investment PropertyGRAP 17 (as revised 2012): Property, Plant and EquipmentGRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)IGRAP16: Intangible assets website costsIGRAP1 (as revised 2012): Applying the probability test on initial recognition of revenue	<ul style="list-style-type: none">April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013April 01, 2013	

5.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">IGRAP 11: Consolidation – Special purpose entitiesIGRAP 12: Jointly controlled entities – Non-monetary contributions by venturesGRAP 6 (as revised 2010): Consolidated and Separate Financial StatementsGRAP 7 (as revised 2010): Investments in AssociatesGRAP 8 (as revised 2010): Interests in Joint VenturesGRAP32: Service Concession Arrangements: GrantorIGRAP108: Statutory ReceivablesIGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	<ul style="list-style-type: none">April 01, 2014April 01, 2014April 01, 2014April 01, 2014April 01, 2014April 01, 2015April 01, 2015April 01, 2015	<ul style="list-style-type: none">NoneNoneNoneNoneNone

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R			2013 R		
6.	Investment property					
	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	3,378,504	-	3,378,504	6,579,091	-	6,579,091

Details of valuation

Municipality made use of external and independent professional valuer to value two properties within its jurisdiction. The valuation was based on open market value for existing use. The following are two properties that were currently valued by the professional valuer

1. Municipality has Thusong services centre which is being leased out to various agencies in Atok.
2. Municipality has 64 hectares of land or investment property situated in Hoeraroep farms 515 in Apel

These assumptions are based on current market conditions.

7. Property, plant and equipment

	2014			2013		
	Cost	Accumulated depreciation and accumulated impairment	Book Value	Cost	Accumulated depreciation and accumulated impairment	Book Value
Land	785,221	-	785,221	-	-	-
Buildings	77,520,178	(12,862,689)	64,657,489	74,766,856	(12,862,689)	61,904,167
Furniture and fixtures	697,384	-	697,384	-	-	-
Motor vehicles	247,020	-	247,020	-	-	-
Office equipment	430,827	-	430,827	-	-	-
IT equipment	606,307	-	606,307	-	-	-
Infrastructure	24,360,668	(312,480)	24,048,188	8,036,977	(312,480)	7,724,497
Community	2,640,799	-	2,640,799	-	-	-
Other property, plant and equipment	12,352,626	(6,788,835)	5,563,791	11,827,201	(4,269,771)	7,557,430
Bins and containers	735,503	-	735,503	-	-	-
Work in progress	6,429,278	-	6,429,278	8,978,498	-	8,978,498
Total	126,805,811	(19,964,004)	106,841,807	103,609,532	(17,444,940)	86,164,592

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Depreciation	Total
Land	-	785,221	-	-	785,221
Buildings	61,904,167	3,504,003	-	(750,681)	64,657,489
Furniture and fixtures	-	697,384	-	-	697,384
Motor vehicles	-	247,020	-	-	247,020
Office equipment	-	430,827	-	-	430,827
IT equipment	-	736,510	-	(130,203)	606,307
Infrastructure	7,724,497	17,157,127	-	(833,436)	24,048,188
Community	-	2,640,799	-	-	2,640,799
Other property, plant and equipment	7,557,430	-	(1,927,642)	(65,997)	5,563,791
Bins and containers	-	735,503	-	-	735,503
Work in progress	8,978,498	(2,549,220)	-	-	6,429,278
	86,164,592	24,385,174	(1,927,642)	(1,780,317)	106,841,807

Reconciliation of property, plant and equipment - 2013

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

				2014 R	2013 R	
7. Property, plant and equipment (continued)						
	Opening balance	Additions	Transfer	Depreciation	Impairment loss	Total
Buildings	55,026,340	4,790,376	4,511,069	(2,423,618)	-	61,904,167
Infrastructure	5,309,167	2,572,137	-	(156,807)	-	7,724,497
Other property, plant and equipment	6,607,671	2,489,446	-	(1,499,160)	(40,527)	7,557,430
Work in progress	7,005,577	6,483,990	(4,511,069)	-	-	8,978,498
	73,948,755	16,335,949	-	(4,079,585)	(40,527)	86,164,592

8. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Stamp collections, military insignia, medals, coin	105,000	-	105,000	105,000	-	105,000

Reconciliation of heritage assets 2014

	Opening balance	Total
Stamp collections, military insignia, medals, coin	105,000	105,000

Reconciliation of heritage assets 2013

	Opening balance	Total
Stamp collections, military insignia, medals, coin	105,000	105,000

9. Long term service awards

The accounting standard require that the liabilities are valued using the projected credit unit method. This method was used to value liabilities at year end. Consistent with the provision of IAS 19, the liability has been calculated as the accrued service liability. The accrued service liability is calculated by valuing all future leave and payments expected to be made in respect of benefits accrued up the valuation date. Allowance has been made in these calculations for salary increases and investment returns up to the date that the benefit is received..

Movement in the net liability recognised on the statment of financial position

Opening balance	412,897	292,168
Net expense recognised in the statement of financial performance	84,123	120,729
Closing balance	497,020	412,897

Net expense recognised in the statement of financial performance

Current service cost	102,748	96,582
Interest cost	31,892	27,297
Actuarial (gains) losses	(13,714)	-
Benefits payment	(36,803)	(3,150)
Total included in employee related costs	84,123	120,729

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
9. Long term service awards (continued)		
Key assumptions used		
Below are the assumptions used at the reporting date:		
Discount rates used	8.74 %	8.10 %
General Inflation	6.36 %	5.40 %
Salary Inflation	7.36 %	6.40 %
Real rate(Gap)	1.29 %	1.60 %
<p>The discount rate required by IAS 19 should be set with reference to a highly quality corporate bond. In countries where there is no deep market in such bonds, the market yield on government bonds should be used. The R186 government bond yield was used as at 30 June 2014. The general assumption is used to estimate the base rate for determining the rate at which the future salaries will increase. The estimated market pricing of inflation by comparing the yields on the index linked government bonds and long term bonds, adjusting for an inflation risk premium of 0,5% per annum. The implied inflation assumption is therefore 6.36 % per annum for future inflation. Future salaries can be expected to increase in line with salary inflation. Salary inflation will exceed general inflation by 1, 0% per annum. The municipality does not have any specific assets set aside to profound for this liability..</p>		
10. Inventory		
Inventories	193,598	109,618
<p>Inventory is stated at lower of cost, net realisable value or current replacement cost where applicable.</p>		
11. Receivables from exchange transactions		
Debtors-council facilities	135,801	110,053
Prepaid expenses	96,050	96,050
	231,851	206,103
12. Receivables from non-exchange transactions		
Fines	1,856,287	1,223,418
Provision for traffic fines	(230,514)	(226,224)
Public contributions and subsidies	24,687	-
	1,650,460	997,194
13. VAT receivable		
VAT	2,403,505	2,333,110
<p>VAT disclosed separately due to it being material and VAT receivable is stated at VAT output less VAT input for the period.</p>		
<p>VAT is accounted for on a cash basis.</p>		
14. Receivables		
Gross balances		
Rates	9,942,458	2,892,257
Refuse	9,211,274	4,969,641
	19,153,732	7,861,898

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
14. Receivables (continued)		
Less: Allowance for impairment		
Rates	(6,880,291)	(2,747,644)
Refuse	(5,696,311)	(4,473,848)
	(12,576,602)	(7,221,492)
Net balance		
Rates	3,062,167	144,613
Refuse	3,514,963	495,793
	6,577,130	640,406
Included in above is receivables from exchange transactions		
Refuse	9,211,274	4,969,641
Less allowance for impairment	(5,696,311)	(4,473,848)
	3,514,963	495,793
Included in above is receivables from non-exchange transactions		
Rates	9,942,458	2,892,257
Less allowance for impairment	(6,880,291)	2,892,257
	3,062,167	5,784,514
Net balance	6,577,130	6,280,307
Business and government-rates		
0-60 days	1,266,889	625,574
61 - 90 days	612,687	319,675
91 - 120 days	612,687	158,420
91 - 120 days	7,450,195	1,788,588
Provision for bad-debts	(6,880,291)	(2,747,644)
	3,062,167	144,613
Households and business -refuse removal		
0 -60 days	594,943	501,665
61 - 90 days	297,415	532,041
91 - 120 days	297,299	262,282
121+ days	6,116,414	3,673,653
Less allowance for impairment	(5,696,311)	(4,473,848)
Undefined Difference	1,905,203	-
	3,514,963	495,793
Reconciliation of allowance for impairment		
Balance at beginning of the year	(7,221,492)	(1,000,363)
Contributions to allowance	(5,355,110)	(6,221,129)
	(12,576,602)	(7,221,492)

15. Cash and cash equivalents

Cash and cash equivalents consist of:

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
15. Cash and cash equivalents (continued)		
Cash on hand	250	68
Bank balances	2,645,845	-
Short-term investments	12,842,862	16,138,548
Bank overdraft	-	(156,037)
	15,488,957	15,982,579
Current assets	15,488,957	16,138,616
Current liabilities	-	(156,037)
	15,488,957	15,982,579

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2014	June 30, 2013	June 30, 2012
Standard Bank current account : Apel	167,067	660,169	1,000	-	-	1,000
Account number: 30164532						
Standard Bank call account : Apel	2,860,924	85,421	3,235,548	2,645,845	(156,037)	3,201,973
Account number: 418909202						
Total	3,027,991	745,590	3,236,548	2,645,845	(156,037)	3,202,973

Included in the short term investments are funds invested in the following retail banks;

1. Nedbank;

16. Finance lease obligation

Minimum lease payments due

- within one year	207,839	46,058
- in second to fifth year inclusive	316,967	11,250
	524,806	57,308
less: future finance charges	(56,449)	(2,285)
Present value of minimum lease payments	468,357	55,023

Present value of minimum lease payments due

- within one year	174,560	44,388
- in second to fifth year inclusive	293,797	10,635
	468,357	55,023

Non-current liabilities	293,797	10,635
Current liabilities	174,560	44,388
	468,357	55,023

1. The Palesa liability is secured by office equipment under a deemed finance lease with a carrying value of R11 472.56. The effective interest rate is 10.5% and is repayable in 36 equal instalments of R 937.5 of which the first was paid in August 2012. The last instalment is payable during June 2015.

2. The Nashua liability is secured by office equipment under a deemed finance lease with a carrying value of R456 884.42. The effective interest rate is 8.74% (government bond rate) and is repayable in 36 equal instalments of R 16 382.41 of which the first was paid in February 2014. The last instalment is payable during January 2017.

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
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17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal infrastructure grant(MIG)	9,289,173	7,386,565
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Movement during the year

Balance at the beginning of the year	7,386,565	4,747,940
Additions during the year	19,835,000	18,690,000
Income recognition during the year	(17,932,392)	(16,051,375)
	9,289,173	7,386,565

18. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Total
Provision	51,379	295,200	346,579

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision	-	51,379	51,379

A provision of R295 200 was raised for wage curve that was published by SALGBC regarding several task results.

19. Payables from exchange transactions

Trade payables	2,014,910	1,498,344
Income received in advance	3,065	3,065
Retentions	2,996,092	1,349,552
Other payables	13,904	8,773
Accrued staff leave	2,326,873	1,940,626
Accrued bonus(13 cheque)	558,512	342,140
Accruals	880,401	336,607
	8,793,757	5,479,107

20. Revenue

Service charges	3,900,496	1,333,934
Rental of facilities and equipment	146,609	213,456
Income from agency services	321,488	254,318
Licences and permits	1,765,589	1,721,886
Other revenue	352,177	526,780
Interest received - investment	1,191,329	729,251
Property rates	7,685,709	2,249,209
Property rates - penalties imposed	317,166	113,423
Government grants & subsidies	74,504,098	66,075,436
Public contributions and donations	187,317	-
Fines	1,129,443	688,650
	91,501,421	73,906,343

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
20. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	3,900,496	1,333,934
Rental of facilities and equipment	146,609	213,456
Income from agency services	321,488	254,318
Licences and permits	1,765,589	1,721,886
Other income	352,177	526,780
Interest received - investment	1,191,329	729,251
	7,677,688	4,779,625

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	7,685,709	2,249,209
Property rates - penalties imposed	317,166	113,423
Transfer revenue		
Government and subsidies-capital	74,504,098	66,075,436
Public contributions and donations	187,317	-
Fines	1,129,443	688,650
	83,823,733	69,126,718

21. Property rates

Rates

Residential	9,114,916	4,313,239
Less: Income forgone	(1,429,207)	(2,064,030)
	7,685,709	2,249,209
Interest on property rates levied	317,166	113,423
	8,002,875	2,362,632

Valuations

Agricultural	53,020,000	53,020,000
Educational	115,400,000	115,400,000
Business	162,370,000	162,370,000
Industrial	2,560,000	2,560,000
Mining	13,720,000	13,720,000
Residential	66,640,000	66,640,000
Municipal	10,600,000	10,600,000
State owned	108,950,000	108,950,000
Public service organisation	20,030,000	20,030,000
PBO and place of worship	3,360,000	3,360,000
	556,650,000	556,650,000

Valuations on land and buildings are performed every four years. Fetakgomo Local Municipality implemented a general valuation for the first time on 1 July 2011. The Valuation roll was prepared and performed by a qualified property valuer.

All rebates and exemptions were granted as per the approved Rates Policy which was in line with the Municipal Property Rates Act..

22. Service charges

Refuse removal	3,900,496	2,340,535
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FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
23. Government grants and subsidies-operating		
Operating grants		
Equitable share	52,945,998	46,115,001
Finance management grant	1,650,000	1,500,000
Municipal systems improvement grant	890,000	800,000
Sekhukhune ward committee grant	-	500,000
LG seta grant	85,708	97,060
Municipal infrastructure grant operating	726,548	669,283
EPWP incentive grant	1,000,000	1,012,000
	57,298,254	50,693,344
Capital grants		
Municipal infrastructure grant	17,205,844	15,382,092
	17,205,844	15,382,092
	74,504,098	66,075,436

Equitable share

This grant is an unconditional grant and is utilised for operating costs as well as subsidising the provision of basic services to indigent community members.

Municipal infrastructure grant

Balance unspent at beginning of year	7,386,565	4,747,940
Current-year receipts	19,835,000	18,690,000
Conditions met - transferred to revenue	(17,932,392)	(16,051,375)
	9,289,173	7,386,565

This grant was used to construct projects approved by Cooperative Governance and Traditional Affairs. Other than the unspent amount, the conditions of the grant were met and no funds have been withheld. The unspent grant is cash backed.

Municipal systems improvement grant

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	-	-

This grant was used to build in-house capacity to perform their functions and stabilize institutional and governance systems.

LG Seta grant

Current-year receipts	-	97,059
Conditions met - transferred to revenue	-	(97,059)
	-	-

The grant was utilised for training and development of municipal staff.

Sekhukhune ward committee grant

Current-year receipts	-	500,000
Conditions met - transferred to revenue	-	(500,000)
	-	-

This grant was used to pay stipends for the ward committee members.

Municipal finance management grant

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
23. Government grants and subsidies-operating (continued)		
Current-year receipts	1,650,000	1,500,000
Conditions met - transferred to revenue	(1,650,000)	(1,500,000)
	-	-

This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003.

EPWP incentive grant

Current-year receipts	1,000,000	1,012,000
Conditions met - transferred to revenue	(1,000,000)	(1,012,000)
	-	-

The grant was used to pay wages for EPWP employees.

24. Public contributions and donations

Public contributions and donations	187,317	-
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25. Other income

Construction penalties	-	259,486
Land use charges	13,309	11,275
Tender documents	170,377	44,403
Proof of residence	49,099	39,188
Sundry income	101,002	155,428
Staff parking	18,390	17,000
	352,177	526,780

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
26. General expenses		
Advertising	292,721	201,149
Auditors remuneration	1,249,895	1,312,270
Bank charges	106,061	112,822
Cleaning service	1,538,753	789,335
Computer expenses	1,115,527	668,420
Legal fees and consulting fees	661,044	462,403
Inventory write offs	243,050	-
Debt collection	347,544	-
Donations	-	349,612
Entertainment	51,625	41,392
Ward committee stipends	1,701,222	1,491,736
Insurance	320,589	271,225
IT expenses	399,508	421,892
Rental of office equipment	118,935	190,016
Magazines, books and periodicals	38,859	6,338
Fuel and oil	808,380	748,703
Postage and courier	1,069	953
Printing and stationery	718,002	512,760
Publicity	406,213	174,209
Workmens compensation	480,243	262,824
Security (guarding of municipal property)	3,069,680	2,503,867
Subscriptions and membership fees	499,655	458,597
Telephone and fax	474,421	435,129
Training	624,052	379,280
Travel - local	1,234,457	1,264,504
Electricity	1,149,443	718,981
Bursary fund	172,467	166,537
Consulting fees	746,471	974,734
Council governance/functions	471,805	895,493
FMG expenditure	366,305	729,957
Other expenditure	1,050,271	968,792
	20,458,267	17,513,930

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
27. Employee related costs		
Basic	11,723,499	10,913,281
Bonus	1,163,167	888,203
Medical aid	1,606,151	1,403,845
Unemployment insurance fund	232,254	201,434
Skills development levy	178,559	155,254
Leave pay provision charge	61,838	-
Standby allowance	139,363	149,041
Pay as you earn	2,769,798	2,357,534
Pension fund - defined contribution plan	3,634,509	3,059,469
Travel, motor car, accommodation, subsistence and other allowances	289,676	-
Overtime payments	233,881	97,126
Long-service awards	84,123	120,727
Acting allowances	35,580	6,356
Transport allowance	3,007,958	2,808,672
Car allowance	385,093	-
Housing benefits and allowances	34,416	44,520
Holiday Bonus	187,317	-
Group life insurance	180,561	164,116
Performance Bonus	144,575	-
Contribution to special leave	699,174	201,322
Cellphone allowance	267,253	229,781
SALGB	11,075	9,413
	27,069,820	22,810,094

Remuneration of Municipal Manager

Basic salary	532,174	419,962
Car allowance	13,883	96,940
Performance bonus	-	50,100
Contributions to UIF, medical, pension funds & other	427,723	511,538
Cellphone allowance	6,400	9,600
Subsistence allowance	14,157	-
	994,337	1,088,140

Remuneration of Chief Financial Officer

Basic salary	298,718	392,680
Car allowance	90,627	135,270
Performance bonus	-	37,575
Contributions to UIF, medical and pension funds	364,165	412,283
Cellphone allowance	6,300	8,400
Subsistence allowance	4,565	-
	764,375	986,208

Strategic Manager-Technical Services

Basic salary	353,112	174,945
Car allowance	167,263	97,627
Contributions to UIF, medical and pension funds	352,545	180,512
Cellphone Allowance	8,400	8,400
Subsistence Allowance	23,725	-
	905,045	461,484

Strategic Manager-Corporate Services

Basic Salary	522,219	396,700
Car Allowance	75,411	49,227

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
27. Employee related costs (continued)		
Performance Bonuses	-	36,150
Contributions to UIF, Medical and Pension Funds	306,440	470,602
Cellphone Allowance	8,400	8,400
Acting Allowance	4,934	12,154
	917,404	973,233

Strategic Manager-Development Planning

Basic salary	207,202	458,307
Car allowance	6,025	14,460
Performance bonus	-	86,760
Contributions to UIF, medical and pension funds	212,671	423,777
Cellphone allowance	3,500	8,400
Acting Allowance	25,426	-
Subsistence allowance	15,782	-
	470,606	991,704

28. Remuneration of councillors

Mayor	638,000	633,601
Speaker	574,845	511,687
Chief whip	537,553	481,128
Executive committee	1,839,912	1,174,124
Councillors	4,516,061	4,210,761
	8,106,371	7,011,301

In-kind benefits

The Mayor, Speaker, Chiefwhip and two executive committee were full-time. Mayor, Speaker and Chiefwhip are provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle and driver for official duties.

29. Debt impairment

Contributions to allowance for impairment	5,355,109	7,227,730
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Total contribution to allowance for impairment includes traffic fines, refuse removal and property rates.

30. Investment revenue

Interest revenue		
Call account	175,159	143,635
Investment income	1,016,170	585,616
	1,191,329	729,251

31. Depreciation

Property, plant and equipment	750,681	2,423,618
Infrastructure	833,436	156,807
Community assets	299,997	-
IT Equipment	130,203	-
Office furniture, fixtures and equipment	130,203	-
Motor vehicles	308,547	-
Other assets	65,997	1,499,160
	2,519,064	4,079,585

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
31. Depreciation (continued)		
32. Impairment of assets		
Impairment		
Property, plant and equipment	-	40,527
33. Finance costs		
Finance lease	19,817	12,115
Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2013: R -).		
34. Auditors' remuneration		
Fees	1,249,895	1,312,270
35. Grants and subsidies paid		
Grant paid to Eskom: free basic electricity	1,460,513	1,290,569
Local economic development support programme	1,180,890	468,863
	2,641,403	1,759,432
36. Cash generated from operations		
Surplus	20,606,746	9,088,307
Adjustments for:		
Depreciation	2,519,064	4,079,585
Impairment - other asset	-	40,527
Debt impairment	5,355,109	7,227,730
Movements in long term service liability	84,125	120,727
Movements in provisions	295,200	51,379
Other non-cash items	-	2,731,178
Changes in working capital		
Inventory	(83,980)	36,561
Receivables from exchange transactions	(25,748)	(71,775)
Receivables	(11,291,834)	(5,784,225)
Other receivables from non-exchange transactions	(653,266)	(4,615)
Trade and other payables from exchange transactions	3,314,656	(1,377,548)
Value added tax receivable	(70,395)	(514,913)
Unspent conditional grants and receipts	1,902,608	2,638,625
	21,952,285	18,261,543

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014	2013
	R	R

37. Contingent liabilities

Contingent liabilities

The Municipality has other task results that were not published by the South African Local Government Bargaining Council (SALGBC). A wage curve contingent liability of R409 352.68 was determined for the year ended 30 June 2014.

A dispute by E. Baleni Property Consultant has been raised against the municipality to the value of R3 000 000 with regard to property valuation against the municipality. The case is currently in court.

Municipality against Nchabeleng Barnard - the municipality obtained an Eviction Court Order against unlawful occupiers of the municipal land and Mr Nchabeleng has indicated his intention to challenge the Court Order. The estimated legal cost is R250 000.

Mathibe Benedict Mamogobo issued lawsuit against the municipality on design of municipal logo and the matter is currently handled by municipal legal counsel. The estimated claim is R1 500 000.

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
38. Related parties		
Relationships		
Municipal Manager	Mutumane ND	
Members of senior management	Maredi MF(Chief Financial Officer)	
	Phasha MI(Strategic Manager Corporate Services)	
	Mengwai M (Strategic Manager Development Planning)	
	Morokolo MP(Strategic Manager Technical Services)	
	Sefala R.E (Mayor)	
	Mamphekgo KK (Speaker)	
	Makola MM (Chiefwhip) resigned after year end as	
	Chiefwhip but remain as member of council	
	Phaladi RC (Executive Committee Member)	
	Maisela PR (Executive Committee Member) resigned after	
	year end as Executive member but remain as member of	
	council	
	Lentsoana SA (Executive Committee Member)	
	Seroka KA (Executive Committee Member)	
	Diphofa KD(Chairperson of Technical Committee)	
	Kupa TM(Chairperson of Budget & Treasury Portfolio	
	Committee)	
	Phala MD (Chairperson of Development Planning Portfolio	
	Committee)	
	MathipaMH(Chairperson of Remuneration Committee)	
	Mashabela MN(Chairperson of Community Services	
	Portfolio Committee)	
	Moswana WM(Chairperson of Municipal Public Account	
	Committee)	
	Lesufi JM(Chairperson of Corporate Services Portfolio	
	Committee)	
	Phala TN	
	Phasha MJ	
	Moifo HK	
	Mawela VT	
	Mabotha MC	
	Manala ER	
	Marote TE	
	Mosoana MD	
	Maboa S	
	Kgoshi Phahlamohlaka K.P	
	Kgoshi Nchabeleng M.K	
	Kgoshigadi Seroka T.M	
	Kgoshigadi Nchabelng M	
	Adv Thubakgale L (Chairperson Audit Committee	
	Semenya CC (Audit Committee member)	
	Mangokwana A (Audit Committee member)	
	Molope LJ (Audit Committee member)	
	Phakoaga (Chairperson Risk Committee)	
Members of Municipal Council		

Apart from salaries and performance bonuses paid to the members of the senior management, management did not have any other related transaction identified. All the members of council were paid remuneration in line with the requirement of Public Office Bearers Act of 1998 and no loan was issued to either member of management or council. Other than related parties identified above, no other related parties existed as at the time of submission of annual financial statement. Salaries and remuneration of key management and councillors are disclosed in 27 and 28. Audit committee members were paid in terms of approved council guidelines.

39. Prior period errors

Correction of an error due to certain movable assets having erroneously been carried at fair value as opposed to actual cost.

Correction of an adjustment not raised on the Hoeraroep investment property

Correction of error due to debtors raised incorrectly in the previous financial year.

FETAKGOMO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

	2014 R	2013 R
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39. Prior period errors (continued)

Correction of an error due to certain immovable assets having been previously omitted in the fixed asset register and a misstatement of other immovable assets not corresponding to supporting documents

Details of the appropriation are as follows:

40. Comparative figures

Certain comparative figures have been reclassified to conform with the correct description.

41. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

43. Fruitless and wasteful expenditure

Interest on late payment of supplier accounts	8,542	8,214
Recreation parks	-	98,179
Penalty and interest for late payment to SARS	16,106	-
	24,648	106,393

Council did not condone any fruitless and wasteful expenditure as at the reporting date.

44. In-kind donations and assistance

Municipality donated office space to the local youth at Atok Thusong Service Centre to run and manage Telecentre. The office space is donated at the market rate.

FETAKGOMO LOCAL MUNICIPALITY

Appendix G3

Budgeted Financial Performance (revenue and expenditure) for the year ended June 30, 2014

	2014/2013								2013/2012						
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget Rand	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand		Rand	Rand	Rand	Rand	Rand	Rand
Revenue By Source															
Property rates	4,021,200	4,078,800	8,100,000	-		8,100,000	7,685,710		(414,290)	95 %	191 %				2,249,209
Property rates - penalties & collection charges	-	-	-	-		-	317,166		317,166	DIV/0 %	DIV/0 %				113,423
Service charges - electricity revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - water revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - sanitation revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - refuse revenue	3,360,000	-	3,360,000	-		3,360,000	3,900,496		540,496	116 %	116 %				1,333,934
Service charges - other	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Rental of facilities and equipment	263,490	-	263,490	-		263,490	146,610		(116,880)	56 %	56 %				213,456
Interest earned - external investments	959,960	-	959,960	-		959,960	1,191,329		231,369	124 %	124 %				729,251
Interest earned - outstanding debtors	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Dividends received	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Fines	500,000	-	500,000	-		500,000	1,129,443		629,443	226 %	226 %				688,650
Licences and permits	1,800,000	-	1,800,000	-		1,800,000	1,765,589		(34,411)	98 %	98 %				1,721,886
Agency services	450,000	-	450,000	-		450,000	321,488		(128,512)	71 %	71 %				254,318
Transfers recognised - operational	57,379,400	-	57,379,400	-		57,379,400	57,298,256		(81,144)	100 %	100 %				50,693,343
Other revenue	286,000	-	286,000	-		286,000	352,179		66,179	123 %	123 %				526,779
Gains on disposal of PPE	2,000	-	2,000	-		2,000	-		(2,000)	- %	- %				-
Total Revenue (excluding capital transfers and contributions)	69,022,050	4,078,800	73,100,850	-		73,100,850	74,108,266		1,007,416	101 %	107 %				58,524,249

FETAKGOMO LOCAL MUNICIPALITY

Appendix G3

Budgeted Financial Performance (revenue and expenditure) for the year ended June 30, 2014

2014/2013										2013/2012				
Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Employee related costs	34,351,952	(1,067,857)	33,284,095	-	(266,577)	33,017,518	31,121,583	-	(1,895,935)	94 %	91 %	-	-	27,310,860
Remuneration of councillors	7,356,706	785,000	8,141,706	-	43,100	8,184,806	8,106,371	-	(78,435)	99 %	110 %	-	-	7,011,301
Debt impairment	6,288,000	2,968,000	9,256,000	-	-	9,256,000	5,355,110	-	(3,900,890)	58 %	85 %	-	-	6,221,129
Depreciation & asset impairment	3,269,850	-	3,269,850	-	-	3,269,850	2,519,064	-	(750,786)	77 %	77 %	-	-	4,120,112
Finance charges	89,250	-	89,250	-	-	89,250	19,817	-	(69,433)	22 %	22 %	-	-	12,115
Bulk purchases	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Other materials	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Contracted services	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Transfers and grants	-	-	-	-	-	-	2,641,402	-	2,641,402	DIV/0 %	DIV/0 %	-	-	1,759,432
Other expenditure	25,743,420	25,950	25,769,370	-	(156,523)	25,612,847	23,979,631	-	(1,633,216)	94 %	93 %	-	-	18,383,084
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Total Expenditure	77,099,178	2,711,093	79,810,271	-	(380,000)	79,430,271	73,742,978	-	(5,687,293)	93 %	96 %	-	-	64,818,033
Surplus/(Deficit)	(8,077,128)	1,367,707	(6,709,421)	-	380,000	(6,329,421)	365,288	-	6,694,709	(6)%	(5)%	-	-	(6,293,784)
Transfers recognised - capital	19,041,600	-	19,041,600	-	-	19,041,600	17,205,844	-	(1,835,756)	90 %	90 %	-	-	15,382,092
Contributions recognised - capital	212,708	-	212,708	-	-	212,708	187,317	-	(25,391)	88 %	88 %	-	-	-
Contributed assets	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) after capital transfers & contributions	11,177,180	1,367,707	12,544,887	-	-	12,544,887	17,758,449	-	5,213,562	142 %	159 %	-	-	9,088,308
Taxation	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) after taxation	11,177,180	1,367,707	12,544,887	-	-	12,544,887	17,758,449	-	5,213,562	142 %	159 %	-	-	9,088,308
Attributable to minorities	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) attributable to municipality	11,177,180	1,367,707	12,544,887	-	-	12,544,887	17,758,449	-	5,213,562	142 %	159 %	-	-	9,088,308
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-
Surplus/(Deficit) for the year	11,177,180	1,367,707	12,544,887	-	-	12,544,887	17,758,449	-	5,213,562	142 %	159 %	-	-	9,088,308